

**CITY OF GRINNELL, IOWA**  
**INDEPENDENT AUDITOR'S REPORTS**  
**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2010**

CITY OF GRINNELL, IOWA  
Table of Contents

	<u>Page</u>
OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS:	
	<u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets - Cash Basis	A 5
Governmental Funds Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 7
Proprietary Funds Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C 9
Notes to Financial Statements	10
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds	20
Notes to Required Supplementary Information - Budgetary Reporting	21
OTHER SUPPLEMENTARY INFORMATION:	<u>Schedule</u>
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1 22
Schedule of Indebtedness	2 24
Bond and Note Maturities	3 25
Schedule of Receipts by Source and Disbursements by Function - All Governmental Funds	4 26
Schedule of Expenditures of Federal Awards	5 27
COMMENTS AND RECOMMENDATIONS:	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	28
Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	30
Schedule of Findings and Questioned Costs	32

CITY OF GRINNELL, IOWA  
OFFICIALS  
June 30, 2010

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gordon Canfield	Mayor	January, 2012
James White	Council Member	January, 2014
Oliva Wright	Council Member	January, 2014
Stephen Witt (Resigned September, 2010)	Council Member	January, 2012
Jo Wray (Appointed September, 2010)	Council Member	January, 2012
Rachel Bly	Council Member	January, 2014
Larry Wilson (Resigned December, 2010)	Council Member	January, 2012
Byron Worley	Council Member	January, 2012
Russell Behrens	City Manager	Appointed
P. Kay Cmelik	City Clerk/Finance Director	Appointed
William Sueppel	City Attorney	Appointed

# Gronewold, Bell, Kyhnn & Co. P.C.

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DAVID A. GINTHER

## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Members of the City Council

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Grinnell, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of city officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by officials, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Grinnell as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated January 24, 2011 on our consideration of the City of Grinnell's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

To the Honorable Mayor and  
Members of the City Council

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 4e and 20 through 21 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise City of Grinnell's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2009 (none of which are presented herein) and expressed unqualified opinions, which were prepared in conformity with an other comprehensive basis of accounting. The financial statements for the three years ended June 30, 2007 (none of which are presented herein), were audited by other auditors whose reports expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. The supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Grinnell, Ben, Kyhn & Co. P.C.

Atlantic, Iowa  
January 24, 2011

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The City of Grinnell has prepared the Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the Government-wide Financial Statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds.

### **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

## REPORTING THE CITY'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These funds focus on how money flows into and out of the funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund, and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer, solid waste funds and storm sewers, considered to be major funds of the city.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's balance for governmental activities decreased approximately \$4,154,000 from a year ago. The analysis that follows focuses on the cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2010	2009
Receipts		
Program Receipts		
Charges for Service	\$308	\$232
Operating Grants	1,254	994
Capital Grants	1,118	4,333
General Receipts		
TIF	1,377	1,127
Property Tax	3,403	3,374
Debt Proceeds	4,497	3,700
Other General Receipts	3,503	1,976
Total Receipts	15,460	15,736
Disbursements		
Public Safety	1,738	1,598
Public Works	1,507	1,009
Culture and Recreation	1,072	946
Community and Economic Development	898	924
General Government	1,046	1,029
Debt Service	3,418	941
Capital projects	11,224	11,625
Total Disbursements	20,903	18,072
Change in Cash Basis Net Assets Before Transfers	(5,443)	(2,336)
Transfers, net	1,289	405
Increase (Decrease) in Cash Basis Net Assets	(4,154)	(1,931)
Cash Basis Net Assets Beginning of Year	9,148	11,079
Cash Basis Net Assets End of Year	\$4,994	\$ 9,148

The City's total receipts for governmental activities decreased 1.75% or \$276,000. The total cost of all programs and services increased by approximately 16% or \$2,831,000, due to an increase in capital projects expenditures.

The cost of all governmental activities this year was approximately \$20,903,000 compared to approximately \$18,072,000 last year.



# **GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)**

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2010	2009
Receipts		
Program Receipts		
Charges for Service		
Water	\$972	\$929
Sewer	1,292	1,317
Garbage	1,007	971
Storm sewer	247	245
	<u>\$3,518</u>	<u>3,462</u>
General Receipts		
Bonds Proceeds	3,060	27
Other General Receipts	2,917	70
Total Receipts	<u>9,495</u>	<u>3,559</u>
Disbursements		
Water	1,046	1,027
Sewer	3,501	1,187
Garbage	943	818
Storm sewer	2,954	68
Total Disbursements	<u>8,444</u>	<u>3,100</u>
Change in Cash Basis Net Assets Before Transfers	1,051	459
Transfers, net	<u>(1,289)</u>	<u>(405)</u>
Increase in Cash Balance	(238)	54
Cash Basis Net Assets - Beginning of Year	<u>2,095</u>	<u>2,041</u>
Cash Basis Net Assets - End of Year	<u>\$1,857</u>	<u>\$2,095</u>

Total business type activities receipts for the fiscal year were approximately \$9,495,000 compared to approximately \$3,559,000 last year. The cash balance decreased by approximately 11% or \$238,000 from the prior year. Total disbursements and transfers for the fiscal year increased by approximately 172% to a total of approximately \$8,444,000.

## INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Grinnell completed the year, its governmental funds reported a combined fund balance of \$4,993,951, a decrease of \$4,154,281 from last year's total of \$9,148,232. The following are changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased by \$70,850 from the prior year to \$1,223,272.
- The Equipment Rentals Fund cash balance increased by \$297,801 to \$1,186,757.
- The Tax Increment Financing Fund cash balance decreased \$217,984 to \$123,545.
- The Debt Service Fund cash balance increased \$32,469 to \$125,983.
- The Capital Projects Fund cash balance decreased by \$4,214,673 to \$640,408.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$51,364 to \$141,443.
- The Sewer Fund cash balance decreased by \$341,266 to \$1,100,552.
- The Solid Waste cash balance increased by \$20,266 to \$220,660.
- The Storm Sewer cash balance increased by \$31,424 to \$393,957.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget twice, which increased budgeted disbursements by \$5,546,736. The budget increases were primarily for disbursements in the business type activities and capital projects.

The City's total receipts and disbursements were less than budgeted by \$3,550,198 and \$4,262,604, respectively. The City's disbursements were less than amounts budgeted for all of the functions.

## DEBT ADMINISTRATION

At June 30, 2010, the City had approximately \$20,143,248 in bonds and other long-term debt, compared to \$18,415,285 last year as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2010	2009
General Obligation Notes and Bonds	\$17,763	\$16,338
Revenue Notes	2,380	2,077
Total	\$20,143	\$18,415

The City continues to carry a general obligation bond rating of A3 assigned by national rating agencies to the City's debt since 1995. The Constitution of the State of Iowa Limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$20,443,248 is below its constitutional debt limit.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

City of Grinnell elected and appointed officials and citizens considered many factors when setting the fiscal year 2010 budget, tax rates, and fees that will be charged for various City activities.

The Local Options Sales and Service Tax has allowed Grinnell to complete and pursue some large capital projects i.e. Drake Community Library Project, Public Safety Building Project and Grinnell Mutual Family Aquatic Center Project. These revenues allow us to abate the General Obligation Bonds Principal and Interest rather than raising the debt service levy. We will also see the Tax Increment Financing dollars being utilized to assist with the continuation of the Central Business District phases of development; TIF Rebate Agreements and future economic development projects.

The Sewer rates will likely see some increases over the next few years due to the required improvements to our wastewater treatment plant. The new Storm Water Utility will provide for future capital projects to daily operations which lessen the burden to the sanitary sewer fund as well as the general fund.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. Inflation has been modest here due in part to the slowing of the residential housing market and increases in energy prices.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact P. Kay Cmelik, City Clerk, Grinnell, Iowa.

CITY OF GRINNELL, IOWA  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

As of and for the year ended June 30, 2010

		Program Receipts	
	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Operating Grants, Contributions, and Restricted Interest</u>
Functions/Programs:			
Governmental activities:			
Public safety	\$ 1,716,902	\$ 66,759	\$ 48,398
Public works	1,187,834	71,474	868,242
Health and social services	11,285	--	1,000
Culture and recreation	1,042,095	350,353	71,813
Community and economic development	884,813	185,670	--
General government	1,044,360	34,518	--
Debt service	3,417,738	--	--
Capital projects	<u>11,310,062</u>	<u>--</u>	<u>--</u>
Total governmental activities	<u>20,615,089</u>	<u>708,774</u>	<u>989,453</u>
Business type activities:			
Water	986,504	971,609	--
Sewer	3,279,826	1,297,716	--
Solid waste	917,815	1,006,833	--
Other	<u>120,451</u>	<u>247,117</u>	<u>--</u>
Total business type activities	<u>5,304,596</u>	<u>3,523,275</u>	<u>--</u>
Total	<u>\$ 25,919,685</u>	<u>\$ 4,232,049</u>	<u>\$ 989,453</u>
General Receipts:			
Property tax levied for:			
General purposes			
Debt service			
Tax increment financing			
Hotel motel tax			
Local option sales tax			
Unrestricted interest on investments			
Debt proceeds			
Miscellaneous			
Sale of assets			
Transfers			
Total general receipts and transfers			
Change in cash basis net assets			
Cash basis net assets beginning of year			
Cash basis net assets end of year			

(continued next page)

Program Receipts Capital Grants, Contributions, and Restricted Interest	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Governmental Activities	Business Type Activities	Total
\$ --	\$ ( 1,601,745)	\$ --	\$ ( 1,601,745)
--	( 248,118)	--	( 248,118)
--	( 10,285)	--	( 10,285)
--	( 619,929)	--	( 619,929)
--	( 699,143)	--	( 699,143)
--	( 1,009,842)	--	( 1,009,842)
--	( 3,417,738)	--	( 3,417,738)
<u>2,547,200</u>	<u>( 8,762,862)</u>	<u>--</u>	<u>( 8,762,862)</u>
<u>2,547,200</u>	<u>( 16,369,662)</u>	<u>--</u>	<u>( 16,369,662)</u>
--	--	( 14,895)	( 14,895)
--	--	( 1,982,110)	( 1,982,110)
--	--	89,018	89,018
<u>--</u>	<u>--</u>	<u>126,666</u>	<u>126,666</u>
<u>--</u>	<u>--</u>	<u>( 1,781,321)</u>	<u>( 1,781,321)</u>
<u>\$ 2,547,200</u>	<u>( 16,369,662)</u>	<u>( 1,781,321)</u>	<u>( 18,150,983)</u>
	2,754,738	--	2,754,738
	705,477	--	705,477
	1,376,451	--	1,376,451
	254,027	--	254,027
	866,098	--	866,098
	188,837	45,395	234,232
	4,215,000	2,682,700	6,897,700
	370,331	104,448	474,779
	194,988	--	194,988
	<u>1,289,434</u>	<u>( 1,289,434)</u>	<u>--</u>
	<u>12,215,381</u>	<u>1,543,109</u>	<u>13,758,490</u>
	( 4,154,281)	( 238,212)	( 4,392,493)
	<u>9,148,232</u>	<u>2,094,824</u>	<u>11,243,056</u>
	<u>\$ 4,993,951</u>	<u>\$ 1,856,612</u>	<u>\$ 6,850,563</u>

CITY OF GRINNELL, IOWA  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS - Continued

As of and for the year ended June 30, 2010

		<u>Program Receipts</u>
		Operating Grants, Contributions, and Restricted Interest
	<u>Disbursements</u>	<u>Charges for Service</u>
Cash Basis Net Assets		
Restricted:		
Nonexpendable:		
Cemetery perpetual care		
Expendable:		
Streets		
Equipment rentals		
Capital projects		
Urban renewal purposes		
Debt service		
Other purposes		
Unrestricted		
Total cash basis net assets		

The accompanying notes are an integral part of these statements.

Program Receipts Capital Grants, Contributions, and Restricted Interest	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Governmental Activities	Business Type Activities	Total
	\$ 513,156	\$ --	\$ 513,156
	264,690	--	264,690
	1,186,757	--	1,186,757
	640,408	--	640,408
	123,546	--	123,546
	125,983	499,589	625,572
	916,139	--	916,139
	<u>1,223,272</u>	<u>1,357,023</u>	<u>2,580,295</u>
	<u>\$ 4,993,951</u>	<u>\$ 1,856,612</u>	<u>\$ 6,850,563</u>

CITY OF GRINNELL, IOWA  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2010

	<u>General</u>	<u>Special Revenue Equipment Rentals</u>
Receipts:		
Property tax	\$ 2,000,942	\$ --
Tax increment financing	--	--
Other city tax	7,907	--
Licenses and permits	73,202	--
Use of money and property	155,706	8,822
Intergovernmental	482,131	--
Charges for service	307,633	--
Miscellaneous	<u>413,046</u>	<u>3,063</u>
Total receipts	<u>3,440,567</u>	<u>11,885</u>
Disbursements:		
Operating:		
Public safety	1,532,201	--
Public works	419,412	7,404
Health and social services	11,285	--
Culture and recreation	1,019,560	--
Community and economic development	335,635	--
General government	404,585	--
Debt service	--	--
Capital projects	<u>--</u>	<u>140,730</u>
Total disbursements	<u>3,722,678</u>	<u>148,134</u>
Excess (deficiency) of receipts over (under) disbursements	( 282,111)	( 136,249)
Other financing sources (uses):		
Debt proceeds	--	--
Proceeds from sale of assets	194,988	--
Operating transfers in	160,473	434,050
Operating transfers out	<u>( 2,500)</u>	<u>--</u>
Total other financing sources (uses)	<u>352,961</u>	<u>434,050</u>
Net change in cash balances	70,850	297,801
Cash balances beginning of year	<u>1,152,422</u>	<u>888,956</u>
Cash balances end of year	<u>\$ 1,223,272</u>	<u>\$ 1,186,757</u>

(continued next page)



## Exhibit B

<u>Tax Increment Financing</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor</u>	<u>Total</u>
\$ --	\$ 705,477	\$ --	\$ 745,889	\$ 3,452,308
1,376,451	--	--	--	1,376,451
--	--	--	1,120,125	1,128,032
--	--	--	--	73,202
4,720	8,023	103,831	12,794	293,896
--	--	1,117,886	847,838	2,447,855
--	--	--	--	307,633
--	--	1,207,474	58,426	1,682,009
<u>1,381,171</u>	<u>713,500</u>	<u>2,429,191</u>	<u>2,785,072</u>	<u>10,761,386</u>
--	--	--	184,701	1,716,902
--	--	--	761,018	1,187,834
--	--	--	--	11,285
--	--	--	22,535	1,042,095
256,100	--	--	293,078	884,813
--	--	--	639,775	1,044,360
817,355	2,600,383	--	--	3,417,738
--	--	11,169,332	--	11,310,062
<u>1,073,455</u>	<u>2,600,383</u>	<u>11,169,332</u>	<u>1,901,107</u>	<u>20,615,089</u>
307,716	( 1,886,883)	( 8,740,141)	883,965	( 9,853,703)
--	--	4,215,000	--	4,215,000
--	--	--	--	194,988
--	2,584,352	2,780,468	--	5,959,343
( 525,700)	( 665,000)	( 2,470,000)	( 1,006,709)	( 4,669,909)
<u>( 525,700)</u>	<u>1,919,352</u>	<u>4,525,468</u>	<u>( 1,006,709)</u>	<u>5,699,422</u>
( 217,984)	32,469	( 4,214,673)	( 122,744)	( 4,154,281)
<u>341,529</u>	<u>93,514</u>	<u>4,855,081</u>	<u>1,816,730</u>	<u>9,148,232</u>
<u>\$ 123,545</u>	<u>\$ 125,983</u>	<u>\$ 640,408</u>	<u>\$ 1,693,986</u>	<u>\$ 4,993,951</u>

CITY OF GRINNELL, IOWA  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS - Continued

As of and for the year ended June 30, 2010

	<u>General</u>	<u>Special Revenue Equipment Rentals</u>
Cash Basis Fund Balances		
Reserved for debt service	\$ --	\$ --
Unreserved:		
General fund	1,223,272	--
Special revenue funds	--	1,186,757
Capital projects funds	--	--
Permanent funds	<u>--</u>	<u>--</u>
Total cash basis fund balances	<u>\$ 1,223,272</u>	<u>\$ 1,186,757</u>

The accompanying notes are an integral part of these statements.

Exhibit B

<u>Tax Increment Financing</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor</u>	<u>Total</u>
\$ --	\$ 125,983	\$ --	\$ --	\$ 125,983
--	--	--	--	1,223,272
123,545	--	--	1,180,830	2,491,132
--	--	640,408	--	640,408
--	--	--	513,156	513,156
<u>\$ 123,545</u>	<u>125,983</u>	<u>\$ 640,408</u>	<u>\$ 1,693,986</u>	<u>\$ 4,993,951</u>

CITY OF GRINNELL, IOWA  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS

As of and for the year ended June 30, 2010

	Enterprise	
	Water	Sewer
Operating receipts:		
Use of money and property	\$ --	\$ 5,338
Charges for service	971,609	1,292,378
Total operating receipts	<u>971,609</u>	<u>1,297,716</u>
Operating disbursements:		
Business type activities	972,754	837,597
Total operating disbursements	<u>972,754</u>	<u>837,597</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	( 1,145)	460,119
Non-operating receipts (disbursements):		
Interest on investments	1,893	35,558
Miscellaneous	23,816	69,770
Debt proceeds	495,000	2,187,700
Debt service	( 13,750)	( 2,442,229)
Total non-operating receipts (disbursements)	<u>506,959</u>	<u>( 149,201)</u>
Excess (deficiency) of receipts over (under) disbursements	505,814	310,918
Other financing uses:		
Operating transfers out	( 454,450)	( 652,184)
Total other financing uses	<u>( 454,450)</u>	<u>( 652,184)</u>
Net change in cash balances	51,364	( 341,266)
Cash balances beginning of year	<u>90,079</u>	<u>1,441,818</u>
Cash balances end of year	<u>\$ 141,443</u>	<u>\$ 1,100,552</u>
Cash Basis Fund Balances		
Reserved for debt service	\$ 58,750	\$ 440,839
Unreserved:		
Enterprise funds	<u>82,693</u>	<u>659,713</u>
Total cash basis fund balances	<u>\$ 141,443</u>	<u>\$ 1,100,552</u>

The accompanying notes are an integral part of these statements.

Solid Waste	Enterprise	
	Storm Sewer	Total
\$ --	\$ --	\$ 5,338
<u>1,006,833</u>	<u>247,117</u>	<u>3,517,937</u>
1,006,833	247,117	3,523,275
 <u>917,815</u>	 <u>120,451</u>	 <u>2,848,617</u>
<u>917,815</u>	<u>120,451</u>	<u>2,848,617</u>
 89,018	 126,666	 674,658
 3,186	 4,758	 45,395
10,862	--	104,448
--	--	2,682,700
<u>--</u>	<u>--</u>	<u>( 2,455,979)</u>
<u>14,048</u>	<u>4,758</u>	<u>376,564</u>
 103,066	 131,424	 1,051,222
<u>( 82,800)</u>	<u>( 100,000)</u>	<u>( 1,289,434)</u>
<u>( 82,800)</u>	<u>( 100,000)</u>	<u>( 1,289,434)</u>
 20,266	 31,424	 ( 238,212)
<u>200,394</u>	<u>362,533</u>	<u>2,094,824</u>
<u>\$ 220,660</u>	<u>\$ 393,957</u>	<u>\$ 1,856,612</u>
 \$ --	 \$ --	 \$ 499,589
<u>220,660</u>	<u>393,957</u>	<u>1,357,023</u>
<u>\$ 220,660</u>	<u>\$ 393,957</u>	<u>\$ 1,856,612</u>

CITY OF GRINNELL, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Grinnell, Iowa is a political subdivision of the State of Iowa located in Poweshiek County. It was first incorporated in 1865 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, storm sewer, and solid waste utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Grinnell has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City of Grinnell has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City, but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Poweshiek County Assessor's Conference Board, Poweshiek County Emergency Management Commission, and the Poweshiek County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statements

The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

*Nonexpendable restricted net assets* are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Funds.

CITY OF GRINNELL, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

*Expendable restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds and remaining proprietary funds are aggregated and reported as nonmajor governmental funds or nonmajor proprietary funds, respectively.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Equipment Rentals Fund is used to account for purchase and rental of equipment.

The Tax Increment Financing Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for the acquisition and construction of capital improvements.

CITY OF GRINNELL, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Solid Waste Fund accounts for the operation of the City's residential and commercial waste collection, composting and recycling.

The Storm Sewer Fund accounts for the operation of the City's storm sewer system.

C. Measurement Focus and Basis of Accounting

The City of Grinnell maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the debt service function.

NOTE 2 - CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.



CITY OF GRINNELL, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

NOTE 2 - CASH AND POOLED INVESTMENTS - Continued

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

NOTE 3 - BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for general obligation notes and bonds and revenue notes are as follows:

Year Ending June 30,	General Obligation Notes & Bonds		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 1,100,370	\$ 634,221	\$ 490,000	\$ 67,250	\$ 1,590,370	\$ 701,471
2012	1,106,044	566,330	495,000	53,550	1,601,044	619,880
2013	1,281,761	543,450	525,000	39,700	1,806,761	583,150
2014	1,317,526	512,588	540,000	25,012	1,857,526	537,600
2015	1,358,340	478,548	330,000	9,900	1,688,340	488,448
2016 - 2020	5,909,207	1,691,208	--	--	5,909,207	1,691,208
2021 - 2025	3,760,000	845,461	--	--	3,760,000	845,461
2026 - 2029	1,930,000	141,864	--	--	1,930,000	141,864
	<u>\$ 17,763,248</u>	<u>\$5,413,670</u>	<u>\$2,380,000</u>	<u>\$ 195,412</u>	<u>\$ 20,143,248</u>	<u>\$5,609,082</u>

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund. However, during the year, \$817,355 of general obligation bond principal and interest was paid from the Special Revenue, Tax Increment Financing Fund.

Revenue Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$2,210,000 in sewer revenue capital loan notes issued in July, 2009. Proceeds from the notes provided financing for the refunding of the City's 2003 Sewer Refunding Capital Loan Notes and fund improvements. The notes are payable solely from sewer customer net receipts and are payable through 2015. Annual principal and interest payments on the notes are expected to require less than 85 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$2,028,912. For the current year, principal and interest paid and total customer net receipts were approximately \$386,000 and \$460,000, respectively.

CITY OF GRINNELL, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

NOTE 3 - BONDS AND NOTES PAYABLE - Continued

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$500,000 in water revenue capital loan notes issued in July, 2009. Proceeds from the notes provided financing for water improvements. The notes are payable solely from water customer net receipts and are payable through 2015. Annual principal and interest payments on the notes are expected to require less than 87 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$546,500. For the current year, principal and interest paid and total customer net receipts were approximately \$14,000 and \$(1,000), respectively.

The resolutions providing for the issuance of the revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate sewer and water revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- (c) Sufficient monthly transfers shall be made to sewer and water revenue note reserve accounts within the Enterprise Funds until specific minimum balances have been accumulated. These accounts are restricted for the purpose of paying for principal and interest on the notes when insufficient money is available in the sinking accounts.
- (d) Additional monthly transfers of \$2,000 to a sewer revenue note improvement account within the Enterprise Fund shall be made until specific minimum balances have been accumulated. This account is restricted for the purpose of paying for principal and interest on the notes when insufficient money is available in the sinking and reserve accounts, and available for extraordinary expenses or repairs, capital improvements and extensions to the utility.

NOTE 4 - PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

CITY OF GRINNELL, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

NOTE 4 - PENSION AND RETIREMENT BENEFITS - Continued

Most regular plan members are required to contribute 4.30% (4.50% effective July 1, 2010) of their annual covered salary and the City is required to contribute 6.65% (6.95% effective July 1, 2010) of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2010, 2009, and 2008 were approximately \$137,600, \$120,500, and \$110,100, respectively, equal to the required contribution for each year.

The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing, multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability and death benefits which are established by state statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 7155 Lake Drive, Suite 201, West Des Moines, Iowa 50266.

Plan members are required to contribute 9.40% of earnable compensation and the City's contribution rate, based upon an actuarially determined normal contribution rate, can not be less than 17.0% of earnable compensation. Contribution requirements are established by state statute. The City's contributions to the Plan for the years ended June 30, 2010, 2009, and 2008 were approximately \$164,200, \$164,900, and \$206,600, respectively, which met the required minimum contribution for each year.

NOTE 5 - COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and comp time, and sick leave payable to employees at June 30, 2010, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation and Comp Time	\$ 67,900
Sick Leave	<u>139,700</u>
Total	<u>\$ 207,600</u>

This liability has been computed based on rates of pay in effect at June 30, 2010.

CITY OF GRINNELL, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

NOTE 6 - INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Employee Benefits	\$ 60,893
	Hotel Motel Tax	50,000
	Pension Reserve	5,781
	Enterprise:	
	Water	13,000
	Sewer	13,000
	Permanent:	
	West Pine	<u>17,799</u>
		160,473
Special Revenue:		
Equipment Rental	General Fund	2,500
	Special Revenue:	
	Road Use Tax	53,750
	Capital Projects:	
	Capital Loan	65,000
	Enterprise:	
	Sewer	130,000
	Storm Sewer	100,000
	Solid Waste	<u>82,800</u>
		434,050
Debt Service	Special Revenue:	
	Local Option Sales Tax	404,352
	Capital Projects:	
	CBD	<u>2,180,000</u>
		2,584,352
Capital Projects	Special Revenue:	
	Tax Increment Financing	525,700
	Library Gifts	253,134
	Local Option Sales Tax	161,000
	Debt Service	665,000
	Capital Projects:	
	Capital Loan	225,000
	Enterprise:	
	Water	441,450
	Sewer	<u>509,184</u>
		<u>2,780,468</u>
		<u>\$ 5,959,343</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

CITY OF GRINNELL, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

NOTE 7 - INDUSTRIAL DEVELOPMENT REVENUE BONDS

The City has issued a total of \$10.8 million of Industrial Development Revenue Bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$7.65 million is outstanding at June 30, 2010. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

NOTE 8 - RISK MANAGEMENT

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 634 members include various governmental entities throughout the State of Iowa. The Pool was formed in August, 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials' liability, police professional liability, property, inland marine, and boiler/machinery. There has been no reduction in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2010 were approximately \$147,500.

CITY OF GRINNELL, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

NOTE 8 - RISK MANAGEMENT - Continued

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each accident, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2010 settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund for the capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from the other insurers for the coverage associated with airport liability, construction risk, volunteer coverage, workers' compensation, and employee blanket bond. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF GRINNELL, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description: As required by state law, the City offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The fully insured plan is a part of the plan offered to all City employees, and the retiree must pay a health insurance premium equal to that charged for current employees.

Potential for Liability: The City currently finances a retiree benefit plan on a pay-as-you-go basis. Currently, the City has no retired employees in the plan. A review of the City's current and potential future exposure to this requirement resulted in the conclusion that no material liability exists.

NOTE 10 - SUBSEQUENT EVENT

The City has evaluated all subsequent events through January 24, 2011, the date the financial statements were available to be issued.

NOTE 11 - CONSTRUCTION CONTRACTS

The City has entered into several construction contracts that are still in process as of June 30, 2010. The net remaining amount committed to these contracts is approximately \$992,000, which will be paid with existing capital project funds, local option sales tax revenue, tax increment financing revenues, grant proceeds, and donations.

\* \* \*

## REQUIRED SUPPLEMENTARY INFORMATION



CITY OF GRINNELL, IOWA  
BUDGETARY COMPARISON SCHEDULE  
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -  
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL  
FUNDS AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION

Year ended June 30, 2010

	<u>Governmental Funds Actual</u>	<u>Proprietary Funds Actual</u>	<u>Total</u>
Receipts:			
Property tax	\$ 3,452,308	\$ --	\$ 3,452,308
Tax increment financing	1,376,451	--	1,376,451
Other city tax	1,128,032	--	1,128,032
Licenses and permits	73,202	--	73,202
Use of money and property	293,896	50,733	344,629
Intergovernmental	2,447,855	--	2,447,855
Charges for service	307,633	3,517,937	3,825,570
Miscellaneous	<u>1,682,009</u>	<u>104,448</u>	<u>1,786,457</u>
Total receipts	<u>10,761,386</u>	<u>3,673,118</u>	<u>14,434,504</u>
Disbursements:			
Public safety	1,716,902	--	1,716,902
Public works	1,187,834	--	1,187,834
Health and social services	11,285	--	11,285
Culture and recreation	1,042,095	--	1,042,095
Community and economic development	884,813	--	884,813
General government	1,044,360	--	1,044,360
Debt service	3,417,738	--	3,417,738
Capital projects	11,310,062	--	11,310,062
Business type activities	<u>--</u>	<u>5,304,596</u>	<u>5,304,596</u>
Total disbursements	<u>20,615,089</u>	<u>5,304,596</u>	<u>25,919,685</u>
Excess (deficiency) of receipts over (under) disbursements	( 9,853,703)	( 1,631,478)	( 11,485,181)
Other financing sources (uses), net	<u>5,699,422</u>	<u>1,393,266</u>	<u>7,092,688</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	( 4,154,281)	( 238,212)	( 4,392,493)
Balances beginning of year	<u>9,148,232</u>	<u>2,094,824</u>	<u>11,243,056</u>
Balances end of year	<u>\$ 4,993,951</u>	<u>\$ 1,856,612</u>	<u>\$ 6,850,563</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to Total Variance
Original	Final	
\$ 3,365,015	\$ 3,374,298	\$ 78,010
1,300,926	1,367,689	8,762
1,229,150	1,195,806	( 67,774)
65,050	72,978	224
269,989	273,046	71,583
4,747,116	2,495,240	( 47,385)
4,856,864	4,280,321	( 454,751)
4,818,470	4,925,324	( 3,138,867)
<u>20,652,580</u>	<u>17,984,702</u>	<u>( 3,550,198)</u>
1,689,868	1,790,708	73,806
1,969,061	1,745,399	557,565
--	11,675	390
1,065,431	1,124,534	82,439
691,918	947,449	62,636
1,087,314	1,158,415	114,055
1,137,438	3,317,539	( 100,199)
12,975,358	11,387,949	77,887
4,019,165	8,698,621	3,394,025
<u>24,635,553</u>	<u>30,182,289</u>	<u>4,262,604</u>
( 3,982,973)	( 12,197,587)	712,406
<u>700,000</u>	<u>7,263,624</u>	<u>( 170,936)</u>
( 3,282,973)	( 4,933,963)	541,470
<u>9,440,752</u>	<u>9,440,752</u>	<u>1,802,304</u>
<u>\$ 6,157,779</u>	<u>\$ 4,506,789</u>	<u>\$ 2,343,774</u>

CITY OF GRINNELL, IOWA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -  
BUDGETARY REPORTING

June 30, 2010

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted included disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds, Permanent Funds, and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$5,546,736. The budget amendments are reflected in the final budgeted amount. During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the debt service function.

## OTHER SUPPLEMENTARY INFORMATION

CITY OF GRINNELL, IOWA  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
NON-MAJOR GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2010

		Special Revenue	
	Road Use	Employee Benefits	Local Option Sales Tax
Receipts:			
Property tax	\$ --	\$ 745,889	\$ --
Other City tax	--	--	866,098
Use of money and property	--	3,719	2,159
Intergovernmental	844,596	--	--
Miscellaneous	--	--	--
Total receipts	<u>844,596</u>	<u>749,608</u>	<u>868,257</u>
Disbursements:			
Operating:			
Public safety	--	164,211	--
Public works	761,018	--	--
Culture and recreation	--	--	--
Community and economic development	--	--	35,000
General government	--	626,276	--
Total disbursements	<u>761,018</u>	<u>790,487</u>	<u>35,000</u>
Excess (deficiency) of receipts over (under) disbursements	83,578	( 40,879)	833,257
Other financing sources (uses):			
Operating transfers out	( 53,750)	( 60,893)	( 565,352)
Total other financing sources (uses)	<u>( 53,750)</u>	<u>( 60,893)</u>	<u>( 565,352)</u>
Net change in cash balances	29,828	( 101,772)	267,905
Cash balances beginning of year	<u>234,862</u>	<u>348,270</u>	<u>5</u>
Cash balances end of year	<u>\$ 264,690</u>	<u>\$ 246,498</u>	<u>\$ 267,910</u>
Cash Basis Fund Balances			
Unreserved:			
Special revenue funds	\$ 264,690	\$ 246,498	\$ 267,910
Permanent funds	--	--	--
Total cash basis fund balances	<u>\$ 264,690</u>	<u>\$ 246,498</u>	<u>\$ 267,910</u>

(continued next page)

Special Revenue			
Unemployment Reserve	Pension Reserve	Insurance Deductible	Insurance Reserve
\$ --	\$ --	\$ --	\$ --
--	--	--	--
312	--	2,305	659
--	--	--	--
--	--	--	9,601
<u>312</u>	<u>--</u>	<u>2,305</u>	<u>10,260</u>
--	781	--	--
--	--	--	--
--	--	--	--
--	--	--	--
2,715	--	--	10,784
<u>2,715</u>	<u>781</u>	<u>--</u>	<u>10,784</u>
( 2,403)	( 781)	2,305	( 524)
<u>--</u>	<u>( 5,781)</u>	<u>--</u>	<u>--</u>
<u>--</u>	<u>( 5,781)</u>	<u>--</u>	<u>--</u>
( 2,403)	( 6,562)	2,305	( 524)
<u>35,730</u>	<u>6,562</u>	<u>74,784</u>	<u>58,547</u>
<u>\$ 33,327</u>	<u>\$ --</u>	<u>\$ 77,089</u>	<u>\$ 58,023</u>
\$ 33,327	\$ --	\$ 77,089	\$ 58,023
<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
<u>\$ 33,327</u>	<u>\$ --</u>	<u>\$ 77,089</u>	<u>\$ 58,023</u>

CITY OF GRINNELL, IOWA  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
NON-MAJOR GOVERNMENTAL FUNDS - Continued

As of and for the year ended June 30, 2010

	Special Revenue		
	Insurance Escrow	Hotel Motel Tax	Library Gifts
Receipts:			
Property tax	\$ --	\$ --	\$ --
Other City tax	--	254,027	--
Use of money and property	308	2,570	345
Intergovernmental	--	--	3,242
Miscellaneous	--	1,030	14,866
Total receipts	308	257,627	18,453
Disbursements:			
Operating:			
Public safety	--	--	--
Public works	--	--	--
Culture and recreation	--	--	22,535
Community and economic development	--	258,078	--
General government	--	--	--
Total disbursements	--	258,078	22,535
Excess (deficiency) of receipts over (under) disbursements	308	( 451)	( 4,082)
Other financing sources (uses):			
Operating transfers out	--	( 50,000)	( 253,134)
Total other financing sources (uses)	--	( 50,000)	( 253,134)
Net change in cash balances	308	( 50,451)	( 257,216)
Cash balances beginning of year	9,482	236,751	265,070
Cash balances end of year	<u>\$ 9,790</u>	<u>\$ 186,300</u>	<u>\$ 7,854</u>
Cash Basis Fund Balances			
Unreserved:			
Special revenue funds	\$ 9,790	\$ 186,300	\$ 7,854
Permanent funds	--	--	--
Total cash basis fund balances	<u>\$ 9,790</u>	<u>\$ 186,300</u>	<u>\$ 7,854</u>

See accompanying independent auditor's report.

Special Revenue Police Forfeiture	Cemetery Perpetual Care	Permanent Cemetery Trees	West Pine	Total
\$ --	\$ --	\$ --	\$ --	\$ 745,889
--	--	--	--	1,120,125
417	--	--	--	12,794
--	--	--	--	847,838
<u>22,725</u>	<u>8,355</u>	<u>180</u>	<u>1,669</u>	<u>58,426</u>
23,142	8,355	180	1,669	2,785,072
19,709	--	--	--	184,701
--	--	--	--	761,018
--	--	--	--	22,535
--	--	--	--	293,078
<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>639,775</u>
<u>19,709</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>1,901,107</u>
3,433	8,355	180	1,669	883,965
<u>--</u>	<u>--</u>	<u>--</u>	<u>( 17,799)</u>	<u>( 1,006,709)</u>
<u>--</u>	<u>--</u>	<u>--</u>	<u>( 17,799)</u>	<u>( 1,006,709)</u>
3,433	8,355	180	( 16,130)	( 122,744)
<u>25,916</u>	<u>502,751</u>	<u>1,870</u>	<u>16,130</u>	<u>1,816,730</u>
<u>\$ 29,349</u>	<u>\$ 511,106</u>	<u>\$ 2,050</u>	<u>\$ --</u>	<u>\$ 1,693,986</u>
\$ 29,349	\$ --	\$ --	\$ --	\$ 1,180,830
<u>--</u>	<u>511,106</u>	<u>2,050</u>	<u>--</u>	<u>513,156</u>
<u>\$ 29,349</u>	<u>\$ 511,106</u>	<u>\$ 2,050</u>	<u>\$ --</u>	<u>\$ 1,693,986</u>



CITY OF GRINNELL, IOWA  
SCHEDULE OF INDEBTEDNESS  
Year ended June 30, 2010

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General Obligation Notes and Bonds:			
2005 Bonds	January 1, 2005	2.20% - 3.55%	\$ 3,500,000
2006 B Capital Loan Note	May 15, 2006	6.50%	108,755
2007 Urban Renewal Bonds	June 1, 2007	3.70-3.85%	3,500,000
2008 Refunding Capital Loan Notes	April 1, 2008	4.40%	200,000
2008 Local Option Sales Tax Bonds	May 1, 2008	3.75 - 4.00%	6,500,000
2009 Local Option Sales Tax Bonds	February 1, 2009	2.40 - 3.80%	3,700,000
2009 Urban Renewal Refunding Bonds	October 1, 2009	2.25 - 4.45%	1,900,000
2010 Urban Renewal Refunding Bonds	April 1, 2010	1.00 - 1.80%	2,315,000
Total General Obligation Notes and Bonds			
Revenue Notes:			
2003 Sewer Refunding Capital Loan Notes	May 1, 2003	2.80 - 3.80%	3,775,000
2009 Water Revenue Capital Loan Note Series A	July 1, 2009*	3.00%	500,000
2009 Sewer Revenue Capital Loan Note Series B	July 1, 2009*	2.75 - 3.00%	2,210,000
Total Revenue Notes			

\* The City received advances on debt proceeds prior to debt issuance date.

See accompanying independent auditor's report.

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 2,680,000	\$ --	\$2,680,000	\$ --	\$ 88,755	\$ --
82,985	--	9,737	73,248	5,394	391
3,175,000	--	100,000	3,075,000	119,800	9,675
200,000	--	--	200,000	8,800	723
6,500,000	--	--	6,500,000	252,125	21,010
3,700,000	--	--	3,700,000	152,027	9,502
--	1,900,000	--	1,900,000	--	--
--	<u>2,315,000</u>	--	<u>2,315,000</u>	--	--
<u>\$16,337,985</u>	<u>\$4,215,000</u>	<u>\$2,789,737</u>	<u>\$ 17,763,248</u>	<u>\$ 626,901</u>	<u>\$ 41,301</u>
\$ 2,050,000	\$ --	\$2,050,000	\$ --	\$ 6,014	\$ --
5,000*	495,000	--	500,000	13,750	1,250
<u>22,300*</u>	<u>2,187,700</u>	<u>330,000</u>	<u>1,880,000</u>	<u>56,215</u>	<u>4,354</u>
<u>\$ 2,077,300</u>	<u>\$2,682,700</u>	<u>\$2,380,000</u>	<u>\$ 2,380,000</u>	<u>\$ 75,979</u>	<u>\$ 5,604</u>

CITY OF GRINNELL, IOWA  
BOND AND NOTE MATURITIES  
June 30, 2010

General Obligation Bonds and Notes						
Year ending June 30,	2006 B Capital Loan Note		2007 Urban Renewal Bonds		2008 Local Option Sales Tax Bonds	
	Issued May 15, 2006		Issued June 1, 2007		Issued May 1, 2008	
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount
2011	6.50%	\$ 10,370	3.70%	\$ 100,000	-- %	\$ --
2012	6.50	11,044	3.70	100,000	--	--
2013	6.50	11,761	3.70	200,000	--	--
2014	6.50	12,526	3.70	200,000	--	--
2015	6.50	13,340	3.70	200,000	--	--
2016	6.50	14,207	3.75	700,000	--	--
2017			3.80	775,000	--	--
2018			3.85	800,000	3.75	340,000
2019					3.75	570,000
2020					3.75	595,000
2021					3.75	625,000
2022					3.88	650,000
2023					3.88	680,000
2024					3.88	710,000
2025					4.00	745,000
2026					4.00	775,000
2027					4.00	810,000
2028						
2029						
		<u>\$ 73,248</u>		<u>\$3,075,000</u>		<u>\$6,500,000</u>

Year ending June 30,	Revenue Notes				
	2009 Sewer Revenue		2009 Water Revenue		Total
	Capital Loan Note		Capital Loan Note		
	Issued July 1, 2009		Issued July 1, 2009		
	Interest		Interest		
Rate	Amount	Rate	Amount		
2011	2.75%	\$ 400,000	3.00%	\$ 90,000	\$ 490,000
2012	2.75	400,000	3.00	95,000	495,000
2013	2.75	425,000	3.00	100,000	525,000
2014	2.75	435,000	3.00	105,000	540,000
2015	3.00	220,000	3.00	110,000	330,000
		<u>\$1,880,000</u>		<u>\$ 500,000</u>	<u>\$2,380,000</u>

See accompanying independent auditor's report.

General Obligation Bonds and Notes									
2008 Refunding Capital Loan Notes			2009 Local Option Sales Tax Bonds		2009 Urban Renewal Bonds		2010 Urban Renewal Bonds		
Issued April 1, 2008			Issued February 1, 2009		Issued October 1, 2009		Issued April 1, 2010		
Interest Rate	Amount		Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Total
-- %	\$		2.40%	\$ 435,000	2.25%	\$ 95,000	1.00%	\$ 460,000	\$ 1,100,370
--			2.60	450,000	2.25	105,000	1.00	440,000	1,106,044
4.40	35,000		2.80	475,000	2.50	105,000	1.15	455,000	1,281,761
4.40	25,000		3.00	495,000	2.50	110,000	1.50	475,000	1,317,526
4.40	25,000		3.20	515,000	2.50	120,000	1.80	485,000	1,358,340
4.40	65,000		3.40	540,000	2.50	120,000			1,439,207
4.40	25,000		3.60	565,000	3.00	130,000			1,495,000
4.40	25,000		3.80	225,000	3.00	135,000			1,525,000
					3.00	140,000			710,000
					3.20	145,000			740,000
					--	--			625,000
					--	--			650,000
					4.00	200,000			880,000
					--	--			710,000
					4.20	150,000			895,000
					--	--			775,000
					4.25	165,000			975,000
					--	--			--
					4.45	180,000			180,000
	<u>\$ 200,000</u>			<u>\$3,700,000</u>		<u>\$ 1,900,000</u>		<u>\$2,315,000</u>	<u>\$ 17,763,248</u>

CITY OF GRINNELL, IOWA  
SCHEDULE OF RECEIPTS BY SOURCE AND  
DISBURSEMENTS BY FUNCTION -  
ALL GOVERNMENTAL FUNDS  
For the Last Six Years

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Receipts:			
Property tax	\$ 3,452,308	\$ 3,366,606	\$ 3,087,015
Tax increment financing	1,376,451	1,126,535	922,033
Other city tax	1,128,032	1,131,921	1,386,718
Licenses and permits	73,202	70,469	60,571
Use of money and property	293,896	326,197	249,572
Intergovernmental	2,447,855	2,249,586	2,167,720
Charges for service	307,633	196,393	468,998
Special assessments	--	--	848
Miscellaneous	<u>1,682,009</u>	<u>3,568,962</u>	<u>629,659</u>
Total	<u>\$ 10,761,386</u>	<u>\$ 12,036,669</u>	<u>\$ 8,973,134</u>
Disbursements:			
Operating:			
Public safety	\$ 1,716,902	\$ 1,597,813	\$ 1,595,471
Public works	1,187,834	1,009,404	1,625,587
Health and social services	11,285	--	--
Culture and recreation	1,042,095	946,258	826,726
Community and economic development	884,813	924,032	1,064,758
General government	1,044,360	1,029,102	1,004,039
Debt service	3,417,738	940,726	509,432
Capital projects	<u>11,310,062</u>	<u>11,624,953</u>	<u>5,434,166</u>
Total	<u>\$ 20,615,089</u>	<u>\$ 18,072,288</u>	<u>\$ 12,060,179</u>

See accompanying independent auditor's report.

## Schedule 4

<u>2007</u>	<u>2006</u>	<u>2005</u>
\$ 2,999,391	\$ 3,056,035	\$ 3,070,756
868,911	503,377	495,897
8,125	70,911	61,123
3,619	14,309	19,090
207,611	123,410	110,910
1,764,014	2,864,425	1,053,762
189,815	221,497	258,076
6,629	15,039	2,133
<u>2,603,867</u>	<u>1,290,592</u>	<u>1,417,407</u>
<u>\$ 8,651,982</u>	<u>\$ 8,159,595</u>	<u>\$ 6,489,154</u>
\$ 1,813,974	\$ 1,768,132	\$ 1,632,680
1,722,727	778,029	676,135
--	--	--
1,084,280	876,011	767,961
1,874,595	974,415	667,509
962,178	1,037,363	904,880
356,601	696,402	949,402
<u>2,302,993</u>	<u>6,303,046</u>	<u>2,065,574</u>
<u>\$ 10,117,348</u>	<u>\$ 12,433,398</u>	<u>\$ 7,664,141</u>

CITY OF GRINNELL, IOWA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2010

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Program Expenditures</u>
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Natural Resources:			
Cooperative Forestry Assistance	10.664	09-DG-11420004-097	\$ 3,230
U.S. Department of Justice:			
Iowa Department of Justice:			
Polk County Sheriff's Office:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	N/A	41,772
U.S. Department of Transportation:			
Iowa Department of Transportation:			
ARRA - Highway Planning and Construction	20.205	ESL-3127(622)-7S-79	186,580
ARRA - Highway Planning and Construction	20.205	STP-U-3127(619)-70-79	366,227
Highway Planning and Construction	20.205	EDP-3127(616)-7Y-79	90,123
Highway Planning and Construction	20.205	STP-E-3127(620)-8V-79	222,756
			<u>865,686</u>
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grant Program	14.228	08-HSG-008	146,934
Airport Improvement Program	20.106	AIP-3-19-0039-06	1,141
Airport Improvement Program	20.106	AIP-3-19-0039-07	220,551
Airport Improvement Program	20.106	AIP-3-19-0039-08	35,576
			<u>257,268</u>
U.S. Department of Health and Human Services:			
Iowa Department of Public Health:			
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	58890B16	3,939
			<u>\$ 1,318,829</u>

Basis of Presentation -The Schedule of Expenditures of Federal Awards includes the federal grant activity of City of Grinnell and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation, of the basic financial statements.

See accompanying independent auditor's report.

## COMMENTS AND RECOMMENDATIONS



# Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of City of Grinnell, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated January 24, 2011. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Grinnell's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Grinnell's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Grinnell's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

To the Honorable Mayor and  
Members of the City Council

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item 10-II-A to be a significant deficiency.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Grinnell's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Grinnell's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Grinnell's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Grinnell and other parties to whom the City of Grinnell may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

*Grinnell, Ben, Kuhn & Co. P.C.*

Atlantic, Iowa  
January 24, 2011

# Gronewold, Bell, Kyhnn & Co. P.C.

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DAVID A. GINTHER

## Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control over Compliance In Accordance With OMB Circular A-133

To the Honorable Mayor and  
Members of the City Council

### Compliance

We have audited the compliance of the City of Grinnell with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2010. The City of Grinnell's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Grinnell's management. Our responsibility is to express an opinion on the City of Grinnell's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Those standards, and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Grinnell's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Grinnell's compliance with those requirements.

In our opinion, the City of Grinnell complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2010.

To the Honorable Mayor and  
Members of the City Council

### Internal Control Over Compliance

The management of the City of Grinnell is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Grinnell's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Grinnell's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over that compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct non-compliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material non-compliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying Schedule of Findings and Questioned Costs as item 10-III-A. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The City of Grinnell's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Grinnell's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Grinnell and other parties to whom the City of Grinnell may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

*Grinnell, Ben, Kyhn + W.P.C.*

Atlantic, Iowa  
January 24, 2011

CITY OF GRINNELL, IOWA  
Schedule Of Findings And Questioned Costs  
Year ended June 30, 2010

PART I: Summary of the Independent Auditor's Results

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and cash disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) A significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements, which is not considered to be a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A significant deficiency in internal control over the major program was disclosed by the audit of the financial statements, which is not considered to be a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed an audit finding which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was as follows:
  - CFDA Number 20.205 - Highway Planning and Construction  
- ARRA Highway Planning and Construction
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) City of Grinnell did not qualify as a low-risk auditee.

CITY OF GRINNELL, IOWA  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2010

PART II: Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCIES:

10-II-A Segregation of Duties: One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. However, because there are a limited number of people that have the primary responsibility for the accounting and financial duties, those aspects of internal accounting control which rely upon an adequate segregation of duties are missing in the City.

Recommendation: We recommend that the City review its control procedures to obtain the maximum internal control possible under the circumstances and the Council be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: We will continue work in this area to increase segregation of duties.

Conclusion: Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

CITY OF GRINNELL, IOWA

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

PART III: Findings and Questioned Costs For Federal Awards

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 20.205: Highway Planning and Construction; ARRA Highway Planning and Construction

Pass-through Agency Numbers: EDP-3127(616)-7Y-79; STP-E-3127(620)-8V-79; ESL-3127(622)-7S-79; STP-U-3127(619)-70-79

Federal Award Years: 2008; 2009

U.S. Department of Transportation

Passed through the Iowa Department of Transportation

- 10-III-A Segregation of Duties over Federal Programs: The City did not properly segregate all accounting and financial reporting duties, including those related to federal programs. See item 10-II-A.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

PART IV: Other Findings Related to Statutory Reporting

- 10-IV-A Certified Budget: Disbursements during the year ended June 30, 2010 exceeded the amounts budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation: The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response: The budget will be amended in the future, if applicable.

Conclusion: Response accepted.

- 10-IV-B Questionable Disbursements: During the audit, we did not note any disbursements that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- 10-IV-C Travel Expense: No expenditures of City money for travel expenses of spouses of City officials and/or employees were noted.

- 10-IV-D Business Transactions: In accordance with Chapter 362.5(10) of the Code of Iowa, no transactions between the City and the City officials and City employees were noted that represented conflicts of interest.

CITY OF GRINNELL, IOWA

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

PART IV: Other Findings Related to Statutory Reporting - Continued

10-IV-E Bond Coverage: Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

10-IV-F Council Minutes: No transactions were found that we believe should have been approved in the Council minutes but were not.

10-IV-G Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa.

10-IV-H Revenue Bonds: No instances of non-compliance with the revenue bond resolutions were noted.

10-IV-I Payment of General Obligation Bonds: Certain general obligation bonds were paid from the Special Revenue, Tax Increment Financing Fund. Chapter 384.4 of the Code of Iowa states, in part "Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund."

Recommendation: The City should transfer from the Special Revenue, Tax Increment Financing Fund to the Debt Service Fund for future funding contributions. Payments of the bonds should then be disbursed from the Debt Service Fund.

Response: We will transfer in the future as recommended.

Conclusion: Response accepted.

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